

## Balfour Beatty Group Limited

### Strategic Report for the Year Ended 31 December 2019 (continued)

#### Section 172 statement

The Companies (Miscellaneous Reporting) Regulations 2018 have introduced new statutory reporting requirements for financial years beginning on or after 1 January 2019. As a result, the Directors of the Company are required to give an annual statement on how they have discharged their duty under section 172 of the Companies Act 2006 to promote the success of the Company for the benefit of its members as a whole and with regard to broader stakeholder interests. This section of the Strategic Report states how the Directors have had regard to the matters set out in section 172(1) (a) to (f) during the year as required by section 414CZA, of the Companies Act 2006.

The Directors take their responsibilities seriously and seek to act in good faith in the way most likely to promote the success of the Company in accordance with section 172 of the Companies Act 2006. The Board of the Company is assisted in considering key stakeholders as part of the process for making decisions and setting strategy, as appropriate, through papers and information provided to Directors before Board meetings.

The Company is an indirectly wholly owned subsidiary of Balfour Beatty plc which is itself a UK premium listed company and therefore required to comply with the UK Corporate Governance Code 2018. In its annual report and accounts for the year ended 31 December 2019 ('Group Accounts'), Balfour Beatty plc provided a statement on its compliance with section 172 of the Companies Act 2006.

As set out in the corporate governance framework for Balfour Beatty plc and its subsidiaries (the 'Group') on page 99 of the Group Accounts, the business is operated along divisional lines with authority delegated from the board of Balfour Beatty plc throughout the Group. Within this framework, individual subsidiary companies are used for the operation of the business through these divisions. The approach to engagement of employees and consideration of external stakeholder interests undertaken by Balfour Beatty plc applies to each subsidiary within the Group. Notwithstanding this, the Board of the Company undertakes engagement activities with those stakeholders that are of particular significance to the Company.

The Directors acknowledge that effective and meaningful engagement with stakeholders and employees is key to promoting the success of the Company. Details of the action taken to support these objectives are set out as follows:

- Information on how the board of Balfour Beatty plc engages (on behalf of all Group subsidiaries) with other stakeholder groups including customers, communities and governments is set out on page 97 of the Group Accounts. Long-term collaborative relationships with these groups are recognised by the Board of the Company as being critical to the Company's success. Individual Directors of the Company engage directly with these stakeholders as part of the day to day running of their business area;
- Supply chain and strategic partners are vital for the successful delivery of all projects undertaken by the Company. In particular, the Directors of the Company place great value on having trusted joint venture partners. Directors maintain strong relationships with joint venture partners through regular engagement on a project by project basis;
- Employee engagement for the Group is led by the board of Balfour Beatty plc with details of the approach taken set out on page 96 of the Group Accounts. Part of the Group's UK workforce is employed by the Company (further details are provided under Note 9) and therefore employee engagement initiatives at a Group level include engagement with the Company's employees. The Directors of the Company each received the results of employee engagement surveys conducted during the year and also supported other employee engagement initiatives including reverse mentoring as detailed under the Corporate Governance Statement from page 21 of these Accounts;

## **Balfour Beatty Group Limited**

### **Strategic Report for the Year Ended 31 December 2019 (continued)**

#### **Section 172 statement (continued)**

- An assessment of stakeholders' priorities at a Group level relating to environmental and sustainability matters are set out on page 49 of the Group Accounts;
- The proactive and pragmatic approach taken at a Group level with regards to risk management and internal control is set out on pages 72 to 84 of the Group Accounts;
- Details of how high standards of business integrity are maintained are set out on pages 46 and 47 of the Group Accounts;
- The Company exists within the wider Group and relationships with other Group companies including the Company's shareholder, Balfour Beatty Investment Holdings Limited are key to the Company's success.

This statement is also available on the Group's website at: <https://www.balfourbeatty.com/investors/governance/>

## **Balfour Beatty Group Limited**

### **Directors' Report for the Year Ended 31 December 2019**

#### **Corporate governance statement**

The Companies (Miscellaneous Reporting) Regulations 2018 introduced new statutory reporting requirements for financial years beginning on or after 1 January 2019. As a result, this statement gives details of the corporate governance arrangements which the Company applied during the year.

As set out in the Strategic Report, the Company is an indirectly wholly owned subsidiary of Balfour Beatty plc which is itself a UK premium listed company and therefore required to comply with the UK Corporate Governance Code 2018 ('Code'). As disclosed in its annual report and accounts for the year ended 31 December 2019 ('Group Accounts'), Balfour Beatty plc complied fully with the requirements of the Code. As set out in the corporate governance framework for Balfour Beatty plc and its subsidiaries ('Group') on page 99 of the Group Accounts, the business is operated along divisional lines with authority delegated from the board of Balfour Beatty plc throughout the Group. The approach to corporate governance including engagement with employees and consideration of stakeholder interests undertaken by Balfour Beatty plc applies to each subsidiary within the Group. The Company does not therefore apply a separate code of corporate governance to its own activities.

#### Purpose and Culture

The Company operates under the same cultural framework as that which has been established for the Group:

- Purpose - Creating infrastructure; supporting communities; enabling growth
- Values - Talk positively; collaborate relentlessly; encourage constantly
- Vision - To be the leading engineering and infrastructure company in our chosen markets

The Directors of the Company recognise that the Company's purpose, values and vision directly affect performance and the preservation of long-term value. The three cultural foundations guide the decision-making and strategy of the Company.

## **Balfour Beatty Group Limited**

### **Directors' Report for the Year Ended 31 December 2019 (continued)**

#### **Corporate governance statement (continued)**

##### Board composition

The Board of the Company is structured to ensure that the directors provide the Company with the appropriate balance of skills, experience and knowledge. The Board of the Company is made up of six directors, including Leo Quinn, Group Chief Executive and Philip Harrison, Chief Financial Officer who are also directors of Balfour Beatty plc. Each of the other Directors of the Company are senior employees of the Group.

Apart from one Director (who has senior financial responsibilities within the Group), all other Directors are members of the Group executive committee which is the leadership body for the Group that sits below the board of Balfour Beatty plc. Each of these executive committee members have responsibilities for the day-to-day leadership of key strategic business units. Collectively, all Directors have responsibility for promoting a positive culture based on the purpose, values and vision across the entire Group as well as for the Company.

The size and structure of the Board of the Company is deemed appropriate for the Company given its role within the Group.

##### Diversity

The challenges of diversity within the construction sector are recognised by the Board of the Company. The Directors actively support initiatives to further the career progression of female employees and those from under-represented backgrounds such as minority ethnic groups. This includes support for the Group's four employee-led Affinity Network, which are open for all employees to join regardless of gender, race, ability or sexual preference. These networks each relate to one of four key areas of protected characteristics and include: LGBT+, Multi-Cultural, Gender Equality and Ability (which seeks to identify and remove barriers for people with disabilities). The four Affinity Networks provide an opportunity for all employees to support the Group's diversity and inclusion initiatives. In addition, several Directors have participated in a reverse mentoring programme with employees from under-represented groups in order to gain a direct insight into the challenges that they face.

##### Director inductions, training and ongoing support

Directors undergo a tailored induction programme upon joining the Group, based on their specific experience and knowledge and their individual role within the wider Group. Ongoing training and updating of skills and knowledge is achieved through continuing professional development and visiting operational sites. As for all employees, the Directors each complete training on business integrity matters including on the Group's Code of Conduct. Each director has a thorough appraisal each year to recognise individual effectiveness and identify areas for further development. All Directors have equal voting rights and have access to the services and advice of the Company Secretariat including guidance on their statutory duties under the Companies Act 2006. In addition, all Directors are able, if necessary, to obtain independent professional advice at the Company's expense. The Company Secretariat is responsible for facilitating effective meetings of the Directors and ensuring dissemination of timely information relating to the matters to be discussed at such meetings.

## **Balfour Beatty Group Limited**

### **Directors' Report for the Year Ended 31 December 2019 (continued)**

#### **Corporate governance statement (continued)**

##### Decision-making

The Directors held meetings throughout 2019 on an ad hoc basis to consider and approve a range of strategic, business performance, financial management and regulatory matters. In addition to the Group's corporate governance framework, a formal policy of delegation exists which provides the infrastructure for authorities afforded to senior individuals. This central point of reference ensures that decisions are taken within the Group by those best placed to take them, whilst simultaneously allowing the business to function efficiently without having to adhere to bureaucratic and burdensome processes. The Directors have a clear understanding of their individual accountabilities and adhere to these delegated levels of authority both on an individual level whilst ensuring that there is Board approval and oversight wherever necessary. The articles of association of the Company form the constitution of the Company and are reviewed on a periodic basis. The Company is wholly owned by Balfour Beatty Investment Holdings Limited, which is itself a wholly owned indirect subsidiary of Balfour Beatty plc and therefore a member of the Group, subject to the same governance framework as the Company. Approval by the Company's shareholder is sought wherever necessary and in accordance with the constitution of the Company, the Group's delegated authority policy and statutory and regulatory requirements.

Corporate governance considerations relating to remuneration, risk management and internal control, business integrity, people and sustainability are managed across the Group as detailed in the Group Accounts on pages 87 to 140. The Directors ensure that the Group approach to such matters is applied to the Company in a consistent manner.

##### Engagement with stakeholders

The Board of the Company recognise the importance of effective and meaningful engagement with stakeholders and employees in promoting the success of the Company. Further details of stakeholder engagement can be found under the Section 172 Statement on page 12 of these Accounts.

## **Balfour Beatty Group Limited**

### **Statement of Directors' Responsibilities in respect of the Strategic Report, the Directors' Report and the Financial Statements**

The Directors are responsible for preparing the Strategic Report, the Directors' Report and the financial statements in accordance with applicable law and regulations.

Company law requires the Directors to prepare financial statements for each financial year. Under that law they have elected to prepare the financial statements in accordance with UK accounting standards and applicable law (UK Generally Accepted Accounting Practice), including FRS 101 *Reduced Disclosure Framework*.

Under company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period. In preparing these financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether UK accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- assess the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and
- use the going concern basis of accounting unless they either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error, and have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Company and to prevent and detect fraud and other irregularities.